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Message Text

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EUR/CE - MR. GEORGE
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S/S - WHLUERS
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E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: OFFSET

1. FOLLOWING IS PROVIDED FOR ADDRESSEES' INFORMATION ONLY.

2. AT MARCH 19 MEETING SECRETARY SHULTZ, FRG FINANCE MINIS-
TER SCHMIDT AND UNDER SECRETARY CASEY REACHED AGREEMENT IN
PRINCIPLE ON MAGNITUDE AND COMPONENTS OF BILATERAL OFFSET
AGREEMENT COVERING FISCAL YEARS 1974 AND 1975. WE ANTICI-
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PATE THAT ANY REMAINING QUESTIONS CAN NOW BE RESOLVED AND

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AGREEMENT SIGNED VERY SHORTLY.

3. BREAKTHROUGH RESULTED LARGELY FROM SCHMIDT'S OFFER TO PURCHASE DM 2,250 MILLION IN SEVEN-YEAR, TWO AND ONE-HALF PERCENT, DOLLAR-DENOMINATED USG SECURITIES BY JUNE 30, 1975, WITH AT LEAST ONE-HALF PURCHASE BEFORE JUNE 30, 1974. SEVEN YEAR TERM, HOWEVER, WILL REQUIRE CHANCELLOR BRANDT'S APPROVAL. MAGNITUDE AND TERMS ARE SUCH AS TO YIELD NEARLY DOLS 300 MILLION IN CONCESSIONAL VALUE OVER THE LIFE OF THE LAONS. TOGETHER WITH DOLS 225 MILLION IN TROOP FACILITIES REHABILITATION AND DOLS 8 MILLION IN ASSSMHTION OF LAND TAXES AND AIRPORT FEES, THIS FIGURE BRINGS US CLOSE TO COVERING TWO-YEAR ESTIMATE OF DOLS 620 MILLION IN INCREMENTAL TROOP STATIONING COSTS IN FRG, THUS SATISFYING A PRIME OBJECTIVE BOTH OF THE ADMINISTRATION AND THE JACKSON-NUNN AMENDMENT.

4. WITH INCLUSION OF LOAN, GERMAN OFFSET OFFER COMPRISING MILITARY PROCUREMENT, REHABILITATION OF TROOP FACILITIES, TAXES AND AIRPORT FEES, URANIUM ENRICHMENT SERVICES AND R AND D PROJECTS NOW TOTALS DOLS 2,218 MILLION (DM 5,920 MILLION AT EXCHANGE RATE OF DOLS 1 EQUALS DM 2.669). WITH ESTIMATED US MILITARY EXPENDITURES IN FRG AT DOLS 3.3 BILLION OVER TWO-YEAR PERIOD, THIS LEAVES DOLS 1,082 MILLION TO BE COVERED. DEDUCTION OF CERTAIN ITEMS SUCH AS NON-NATO COSTS (DOLS 160 MILLION), RETIRED PAY (DOLS 20 MILLION) AND POL EXPENDITURES (DOLS 50 MILLION--WHICH WOULD BE MADE REGARDLESS OF WHETHER TROOPS ASSIGNED IN US OR EUROPE) LEAVES A RESIDUAL OF DOLS 852 MILLION (DOLS 426 MILLION ON AN ANNUAL BASIS) WHICH CAN EASILY BE COVERED BY OTHER NATO PROCUREMENT AND AS NECESSARY BEY "REFLOW" CREDIT, THUS ENABLING US TO MEET JACKSON-NUNN TARGET AND PRECLUDE FORCE REDUCTIONS. (IN SCHMIDT/SHULTZ DISCUSSIONS WE ACCEDED TO 20 PERCENT FLOWBACK FIGURE AT SCHMIDT'S INSISTENCE SINCE HE STRESSED COSMETIC IMPORTANCE OF THIS FOR INTERNAL FRG PURPOSES. HOWEVER, WE WILL NOT REPEAT NOT USE THIS PERCENTAGE IN OUR NATO OR CONGRESSIONAL PRESENTATIONS.) NATO PROCUREMENT (OTHER THAN FRG) IN EXCESS OF DOLS 650 MILLION ANNUALLY WILL FURTHER ENABLE US TO REDUCE BOP FLOWBACK PERCENTAGE FIGURE FOR PURPOSE OF MORE CONFIDENTIAL

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PERSUASIVE DEFENSE OF NEW OFFSET AGREEMENT TO CONGRESS.

5. US OFFSET REQUIREMENTS AS MODIFIED BY EXCLUSION OF ABOVE-MENTIONED ITEMS WILL NOT REPEAT NOT APPEAR IN OFFSET AGREEMENT. THESE CALCULATIONS WILL BE TREATED AS INTERNAL AND CONFIDENTIAL.

6. DRAFT OF NEW OFFSET AGREEMENT IN FORM OF MINUTE ALONG

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LINES OF 1971 AGREEMENT HAS BEEN POUCHED TO BONN FOR EMBASSY'S INFORMATION ONLY. UNCLEARED DRAFT HAS BEEN GIVEN TO FRG EMBASSY HERE FOR TRANSMISSION TO FRG GOVERNMENT. KISSINGER

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